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# The International Investment Position of the United States: Developments in 1971

THE recorded net international investment position of the United States deteriorated $11.3 billion in 1971. As suggested by the large errors and omissions item in the U.S. balance of payments, much of the recorded deterioration was due to the fact that international assets acquired by U.S. private residents were substantially underreported. Consequently, total international assets of the United States increased only $13.8 billion, but U.S. liabilities to foreigners rose $25.1 billion, concentrated in an increase of U.S. liquid liabilities to foreign official reserve agencies. By yearend 1971, total assets still exceeded total liabilities by $57.9 billion, but the liquidity structure of the U.S. investment position had worsened measurably.

This article reviews the factors accounting for recent changes in the net international investment position (table 1). It discusses changes in the composition of U.S. international assets and liabilities, particularly changes between liquid and nonliquid categories (chart 8). Finally, the pattern of change in the liquidity structure of the investment position is examined, with special emphasis on its relationship to the balance of payments and the suspension of dollar convertibility in August 1971.

### *Changes in the net international position*

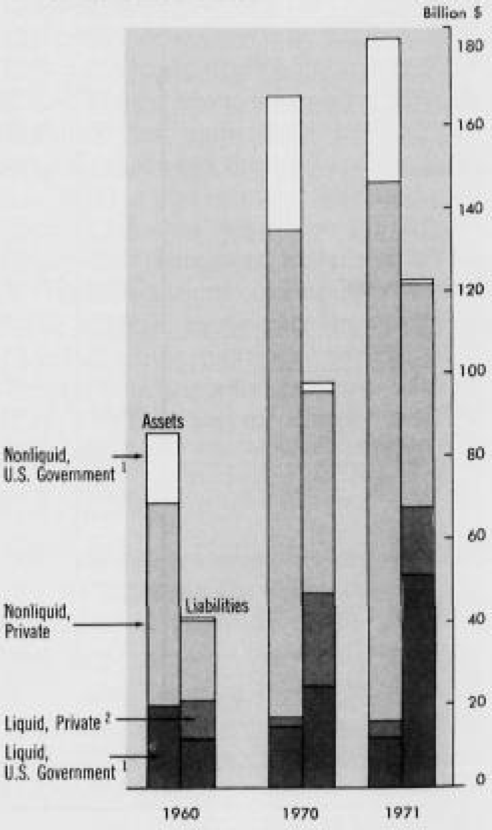
Changes in the net international investment position of the United States reflect three major factors (table 1). The first is net recorded balance of payments capital flows, which must be equal, in an accounting sense, to the sum of the current account (the balance of goods and services and unilateral transfers), allocations of SDR, and an adjustment for errors and omissions. This adjustment for unrecorded transactions accounts for the difference between measured changes in our investment position from recorded net capital flows and the recorded balance on current account plus allocations of SDR. If unrecorded flows could be identified, part presumably would go into recorded capital flows, and part into the recorded current account. The current account plus allocations of SDR would then equal net capital flows. A surplus on the current account, after adjustment for errors and omissions, and allocations of SDR tend to improve the net investment position.

The second factor influencing changes in the net investment position is reinvested earnings of U.S. affiliates abroad minus reinvested earnings of foreign-owned affiliates in the United States. Earnings of U.S. affiliates abroad not repatriated or credited to the United States as income (and thus not included in the current account) improve our investment position by raising the value of U.S. direct investment overseas. The third factor is the net change in valuation of outstanding U.S. investment abroad and foreign investments in the United States (including adjustments for changes in coverage and statistical discrepancies); these adjustments are also not reflected in the balance of payments accounts. Net changes in valuation include adjustments for price changes in the value of outstanding U.S. and foreign securities. Also, outstanding assets and liabilities denominated in foreign currencies are adjusted to reflect altered foreign exchange values vis-a-vis the dollar. Furthermore, book values of assets and liabilities are adjusted for direct investment write-offs of assets expropriated or gains or losses from liquidations. Periodically, it is necessary to adjust for changes in coverage and for new benchmark surveys of assets and liabilities.

While the change in the net investment position, in an accounting sense, is equal to the sum of the three factors

CHART 8

**International Assets and Liabilities of the United States**




1. Liquid liabilities include nonliquid liabilities to foreign offical agencies as in table 3, line 36.
2. Assets not separately available in 1960, included with private nonliquid assets.

Note.—Refer to table 3 for data.

U.S. Department of Commerce, Bureau of Economic Analysis 72-10-8

NOTE.—Significant data contributions were made by Julius Freidlin, Nancy R. Keith, and E. Seymour Kerber.

previously mentioned, it should not be assumed that capital flows necessarily result in a change in the net investment position. It is clear that if there is a capital outflow from the United States and a corresponding increase in assets but the current account (or the errors and omissions) is not affected—i.e. the outflow does not lead, for instance, to an increase in U.S. exports—then the outflow will lead to a corresponding increase in liabilities or decrease in other assets. In this case there will be no change in the net investment position. We essentially improve our net investment position by transferring abroad real goods and services or by reinvesting abroad, and the position is also affected by valuation changes. Only if an outflow of capital in a given year affects the current account in the same year will the outflow, per se, affect that year's change in the net investment position, as for instance, when an increase in export credits leads to an increase in exports. In the longer run, the effect of capital flows on the current account (and thus on the net investment position) is likely to be much more important.

The recorded change in the net international investment position of the United States in 1971 was a sharp deterioration of $11.3 billion. The balance on current account, in deficit by $2.8 billion in 1971, had an adverse impact on our investment position. In the late fifties and early sixties, there had been a current account surplus but it subsequently diminished and shifted to small deficits in 1968 and 1969, adversely affecting the net investment position. (In 1970, the current account was temporarily in surplus, due to favorable cyclical conditions vis-a-vis other countries.) Net reinvested earnings of $2.6 billion had a favorable impact of comparable magnitude on the net investment position, and the effects of SDR allocations and net valuation adjustments were also offsetting.

Thus, the 1971 decline in the net investment position was about the same as the errors and omissions item, which totaled $10.9 billion. The size of these outflows mirrored the intensity and scope of the movement out of dollars in 1971 stemming from growing expectations that other major currencies would appreciate vis-a-vis the dollar. Part of the unrecorded outflows probably went to the Eurodollar market, attracted by high interest rates resulting from an increased demand for borrowed dollars. Other portions were utilized to acquire other assets overseas. If these acquired assets had been recorded, the increase in U.S. claims would have been larger and the deterioration in our net investment position would have been much less.

An evaluation of the external position of the United States also must take into account changes in the composition of U.S. assets and liabilities. Even when our net investment position improves, there could be a worsening of its liquidity structure if U.S. nonliquid capital outflows are accompanied by a decline in monetary reserves or an increase in liquid liabilities to foreigners, especially to foreign official agencies.

### *Changes in U.S. assets and liabilities*

Total recorded U.S. assets abroad rose $13.8 billion in 1971, resulting from capital outflows of $9.3 billion and $4.5 billion in exchange rate, price and other adjustments. A $14.5 billion rise in U.S. nonliquid assets reflected a continued strong preference for longer term foreign investments by private U.S. residents. (See chart 8.) U.S. direct investment abroad, increasing $7.8 billion, accounted for half the increment in nonliquid assets. Of this amount, capital outflows totaled $4.8 billion, $0.4 billion above the 1970 figure, and reinvested earnings were $3.1 billion, a $0.2 billion rise. There was a $2 billion rise in U.S. holdings of foreign securities, about half of which was accounted for by capital outflows and half by valuation adjustments. Nonliquid bank reported assets increased $1.9 billion and were another important element in the increase in nonliquid assets. Government controls such as the Foreign Direct Investment Program, the Interest Equalization Tax and the Voluntary Credit Restraint Program applied to many of these nonliquid assets; increases were mainly within expressed guidelines or in exempt categories.

Recorded liquid assets, on the other hand, fell $0.7 billion. Nearly all of the $2.3 billion decline in our monetary reserve assets occurred before the August 15 suspension of convertibility of the dollar into gold or other reserve assets. Liquid claims on foreigners reported by banks and nonbanks rose

**Table 1.—Factors Accounting for Changes in the Net International Investment Position of the United States [1]**

[Millions of dollars]

| Item | | Average 1961–65 | Average 1966–70 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 p |
|---|---|---|---|---|---|---|---|---|---|
| Balance on current account (surplus (+)) | | 3,775 | 634 | 2,280 | 2,055 | −484 | −1,035 | 356 | −2,847 |
| Allocations of SDR | | | 173 | | | | | 867 | 717 |
| Adjustment for: | Errors and omissions (receipts (+)) | −845 | −1,045 | −302 | −881 | −377 | −2,470 | −1,174 | −10,927 |
| Equals: | Net recorded balance of payments capital flows (outflow (+)) | 2,927 | −238 | 1,977 | 1,173 | −861 | −3,506 | 47 | −13,056 |
| Plus: | Net reinvested earnings (increase (+)) | 1,072 | 1,788 | 1,400 | 1,159 | 1,687 | 2,173 | 2,514 | 2,616 |
| Plus: | Net valuation and other adjustments | −618 | −30 | 198 | −2,069 | −680 | 3,061 | −726 | −807 |
| | Of which: Changes in coverage and statistical discrepancies | 431 | 95 | 256 | 248 | 224 | −257 | 37 | 4 |
| Equals: | Change in net international investment position of the United States | 3,381 | 1,519 | 3,575 | 263 | 146 | 1,728 | 1,835 | −11,335 |
| *Addendum:* | Net international investment position of the United States at end of period [2] | | | 65,212 | 65,475 | 65,621 | 67,349 | 69,185 | 57,851 |

p Preliminary. 1. Revised.
NOTE.—Details may not add to totals because of rounding.

2. The net position at the end of a given period is equal to the position at the end of the preceding period plus the total net change during the period.

**Table 2.—Changes in the International Investment Position of the United States Reconciled with Balance of Payments Capital Flows**

[Millions of dollars]

**Net international investment position and U.S. assets abroad**

| Lines in table 5 | Item (increase (+)) | 1970 r | 1971 p |
|---|---|---|---|
| 1 | **Net international investment position of the United States** | 1,835 | −11,335 |
| | Balance of payments capital flows | 47 | −13,056 |
| | Other than capital flows | 1,788 | 1,721 |
| 2 | **U.S. assets abroad** | 8,600 | 13,776 |
| | Capital flows | 5,903 | 9,326 |
| | Other than capital flows | 2,697 | 4,450 |
| 3 | **Nonliquid assets** | 11,329 | 14,480 |
| | Capital flows | 8,722 | 10,602 |
| | Other than capital flows | 2,607 | 3,879 |
| 4 | U.S. Government | 1,435 | 2,028 |
| 5, 6 | Long-term credits | 1,482 | 2,089 |
| | Capital flows | 1,568 | 2,074 |
| | Exchange rate adjustments | −86 | 13 |
| | Statistical discrepancies | (*) | 2 |
| 7 | Foreign currencies and other short-term assets | −47 | −61 |
| | Capital flows | 16 | −182 |
| | Exchange rate adjustments | −32 | 123 |
| | Changes in coverage and statistical discrepancies | −32 | −2 |
| 8 | Private, long-term | 8,501 | 10,604 |
| 9 | Direct investments abroad | 7,144 | 7,823 |
| | Capital flows | 4,400 | 4,765 |
| | Reinvested earnings | 2,948 | 3,116 |
| | Valuation adjustments | −204 | −58 |
| 10 | Foreign bonds | 1,442 | 1,445 |
| | Capital flows | 874 | 896 |
| | Price changes | 516 | 546 |
| | Exchange rate adjustments | 52 | 3 |
| 11 | Foreign corporate stocks | −518 | 632 |
| | Capital flows | 69 | 20 |
| | Price changes | −758 | 306 |
| | Exchange rate adjustments | 174 | 306 |
| 12 | Other claims, reported by U.S. banks | −155 | 685 |
| | Capital flows | −175 | 665 |
| | Statistical discrepancies | 20 | 20 |
| 13 | Other claims, reported by U.S. nonbanking concerns | 588 | 109 |
| | Capital flows | 588 | 109 |
| 14 | Private, short-term nonliquid | 1,384 | 1,868 |
| 15 | Claims reported by U.S. banks | 1,023 | 1,302 |
| | Capital flows | 1,023 | 1,807 |
| | Changes in coverage | | −505 |
| 16 | Claims reported by U.S. nonbanking concerns | 361 | 566 |
| | Capital flows | 361 | 565 |
| | Statistical discrepancies | | 1 |
| 17 | Liquid assets | −2,729 | −705 |
| | Capital flows | −2,729 | −1,276 |
| | Other than capital flows | | 571 |
| 18 | Private | −252 | 1,615 |
| 19 | Claims reported by U.S. banks | 99 | 1,110 |
| | Capital flows | 99 | 566 |
| | Changes in coverage | | 544 |
| 20 | Claims reported by U.S. nonbanking concerns | −351 | 505 |
| | Capital flows | −351 | 506 |
| | Statistical discrepancies | | −1 |
| 21 | U.S. monetary reserve assets | −2,477 | −2,320 |
| 22 | Gold | −787 | −866 |
| 23 | SDR | 851 | 249 |
| 24 | Convertible currencies | −2,152 | −353 |
| | Capital flows | −2,152 | −381 |
| | Exchange rate adjustments | | 28 |
| 25 | Gold tranche position in IMF | −389 | −1,350 |

**U.S. liabilities to foreigners**

| Lines in table 5 | Item (increase (+)) | 1970 r | 1971 p |
|---|---|---|---|
| 26 | **U.S. liabilities to foreigners** | 6,765 | 25,110 |
| | Capital flows | 6,946 | 22,381 |
| | Other than capital flows | 809 | 2,729 |
| 27 | **Nonliquid liabilities to other than foreign official agencies** | 5,689 | 4,258 |
| | Capital flows | 4,824 | 1,665 |
| | Other than capital flows | 865 | 2,609 |
| 28 | U.S. Government | −423 | −482 |
| | Capital flows | −423 | −486 |
| | Valuation adjustments | | 4 |
| 29 | Private, long-term | 5,312 | 4,798 |
| 30 | Direct investments in the United States | 1,458 | 434 |
| | Capital flows | 1,030 | −67 |
| | Reinvested earnings | 440 | 498 |
| | Valuation adjustments | −12 | 3 |
| 31 | Corporate and other bonds | 2,078 | 1,748 |
| | Capital flows | 1,493 | 1,433 |
| | Price changes | 585 | 315 |
| 32 | Corporate stocks | 546 | 2,632 |
| | Capital flows | 687 | 849 |
| | Price changes | −140 | 1,783 |
| 33 | Other liabilities, reported by U.S. banks | 22 | −249 |
| | Capital flows | 22 | −249 |
| 34 | Other liabilities, reported by U.S. nonbanking concerns | 1,112 | 232 |
| | Capital flows | 1,112 | 232 |
| 35 | Private, short-term nonliquid, reported by U.S. nonbanking concerns | 902 | −65 |
| | Capital flows | 902 | −58 |
| 36 | **Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies** | 1,073 | 20,852 |
| | Capital flows | 1,123 | 20,728 |
| | Other than capital flows | −49 | 125 |
| 37 | To private foreigners | −6,278 | −6,006 |
| 38 | To foreign commercial banks | −6,470 | −6,219 |
| | Capital flows | −6,508 | −6,908 |
| | Changes in coverage and statistical discrepancies | 32 | 689 |
| 39 | To international and regional organizations | 183 | 677 |
| | Capital flows | 181 | 682 |
| | Statistical discrepancies | 2 | −5 |
| 40 | To other foreigners | 15 | −463 |
| | Capital flows | 87 | −465 |
| | Statistical discrepancies | −72 | 2 |
| 41 | To foreign official agencies | 7,351 | 26,857 |
| 42 | Nonliquid | −275 | −128 |
| 43 | Reported by U.S. Government | 535 | 411 |
| | Capital flows | 535 | 341 |
| | Valuation adjustments | | 70 |
| 44 | Reported by U.S. banks | −810 | −539 |
| | Capital flows | −810 | −539 |
| 45 | Liquid | 7,626 | 26,985 |
| | Capital flows | 7,637 | 27,615 |
| | Changes in coverage and statistical discrepancies | −11 | −630 |

r Revised. p Preliminary. (*) Less than $500,000(±).

NOTE.—Details may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**Table 3.—International Investment Position of the United States at Yearend‡**

[Millions of dollars]

| Line | Type of investment | Total 1960 | Total 1965 | Total 1970r | Total 1971p | Western Europe 1970r | Western Europe 1971p | Canada 1970r | Canada 1971p | Japan 1970r | Japan 1971p | Latin American countries and other western hemisphere 1970r | Latin American countries and other western hemisphere 1971p | Other foreign countries 1970r | Other foreign countries 1971p | International organizations and unallocated‡ 1970r | International organizations and unallocated‡ 1971p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Net international investment position of the United States | 44,730 | r 61,630 | 69,125 | 57,651 | −19,065 | −23,034 | 23,697 | 26,423 | 1,177 | −7,799 | 19,655 | 21,471 | 29,096 | 30,633 | 17,475 | 16,159 |
| 2 | U.S. assets abroad | 85,659 | r 120,434 | 166,850 | 180,426 | 41,450 | 48,630 | 37,106 | 39,682 | 7,226 | 8,365 | 28,710 | 30,770 | 31,699 | 36,373 | 20,450 | 18,606 |
| 3 | Nonliquid assets | 66,330 | r 103,216 | 149,051 | 164,432 | 40,051 | 43,944 | 36,094 | 38,346 | 7,057 | 8,048 | 28,420 | 30,104 | 31,737 | 36,185 | 6,502 | 7,715 |
| 4 | U.S. Government | 16,920 | 23,306 | 32,155 | 34,194 | 7,993 | 7,850 | 24 | 40 | 672 | 600 | 6,329 | 6,000 | 15,904 | 17,610 | 1,353 | 1,419 |
| | Long-term credits: | | | | | | | | | | | | | | | | |
| 5 | Repayable in dollars [1] | 14,028 | 14,869 | 23,518 | 26,414 | 6,827 | 6,798 | 10 | 47 | 647 | 432 | 6,506 | 5,942 | 8,161 | 10,631 | 1,348 | 1,414 |
| 6 | Other [2] | | 5,234 | 6,185 | 8,178 | 951 | 872 | ........ | ........ | 66 | 95 | 690 | 676 | 4,447 | 4,535 | ........ | ........ |
| 7 | Foreign currencies and other short-term assets | 2,893 | 3,104 | 2,453 | 2,402 | 215 | 180 | 5 | 2 | 27 | 29 | 35 | 42 | 2,176 | 2,144 | 5 | 5 |
| 8 | Private, long term | 44,497 | r 71,434 | 104,950 | 115,654 | 29,694 | 33,209 | 35,221 | 37,342 | 2,830 | 3,050 | 18,234 | 19,469 | 14,292 | 16,195 | 5,230 | 6,296 |
| 9 | Direct investments abroad | 31,865 | 49,474 | 78,177 | 86,001 | 24,516 | 27,031 | 22,790 | 24,030 | 1,483 | 1,818 | 14,700 | 15,763 | 11,042 | 12,490 | 3 3,586 | 3 4,310 |
| | Foreign securities: | | | | | | | | | | | | | | | | |
| 10 | Foreign bonds | 5,574 | 10,165 | 13,160 | 14,605 | 585 | 508 | 7,873 | 8,731 | 265 | 269 | 1,059 | 1,110 | 1,775 | 2,014 | 1,658 | 1,977 |
| 11 | Foreign corporate stocks | 2,984 | 5,048 | 6,437 | 7,009 | 2,563 | 2,832 | 3,190 | 3,202 | 337 | 575 | 141 | 172 | 216 | 235 | ........ | ........ |
| 12 | Other claims, reported by U.S. banks | 1,698 | r 4,377 | 3,034 | 3,630 | 471 | 706 | 273 | 303 | 116 | 246 | 1,326 | 1,440 | 851 | 1,030 | ........ | ........ |
| 13 | Other claims, reported by U.S. nonbanking concerns [4] | 1,376 | 2,371 | 4,150 | 4,259 | 1,549 | 1,636 | 1,106 | 1,121 | 139 | 139 | 948 | 970 | 409 | 496 | ........ | ........ |
| 14 | Private, short-term nonliquid | 5 4,813 | 8,965 | 12,826 | 14,684 | 2,424 | 2,802 | 849 | 965 | 4,049 | 4,392 | 3,806 | 4,065 | 1,641 | 2,390 | (*) | (*) |
| 15 | Claims reported by U.S. banks | 5 3,604 | 4,640 | 9,592 | 10,804 | 1,004 | 1,346 | 459 | 578 | 3,763 | 4,059 | 3,113 | 3,219 | 1,120 | 1,690 | (*) | (*) |
| 16 | Claims reported by U.S. nonbanking concerns | 5 1,210 | 1,539 | 3,234 | 3,790 | 1,380 | 1,347 | 360 | 377 | 204 | 333 | 703 | 846 | 631 | 697 | ........ | ........ |
| 17 | Liquid assets | 19,359 | 17,216 | 16,899 | 16,194 | 1,408 | 1,686 | 1,013 | 1,336 | 169 | 317 | 290 | 676 | 162 | 188 | 13,858 | 11,901 |
| 18 | Private | (5) | 1,705 | 3,412 | 4,027 | 780 | 1,411 | 1,013 | 1,536 | 169 | 310 | 290 | 576 | 162 | 188 | ........ | ........ |
| 19 | Claims reported by U.S. banks | (5) | 880 | 1,216 | 2,320 | 310 | 716 | 560 | 961 | 108 | 257 | 128 | 265 | 104 | 131 | ........ | ........ |
| 20 | Claims reported by U.S. nonbanking concerns | (5) | 870 | 1,208 | 1,707 | 6 470 | 6 695 | 452 | 585 | 60 | 70 | 6 162 | 6 291 | 6 58 | 6 57 | ........ | ........ |
| 21 | U.S. monetary reserve assets | 19,359 | 15,450 | 14,487 | 12,167 | 628 | 275 | (*) | (*) | 1 | 1 | ........ | ........ | ........ | ........ | 13,858 | 11,891 |
| 22 | Gold | 17,804 | 13,806 | 11,072 | 10,206 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 11,072 | 10,206 |
| 23 | SDR | ........ | ........ | 851 | 1,100 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 851 | 1,100 |
| 24 | Convertible currencies | ........ | 781 | 629 | 276 | 628 | 276 | (*) | (*) | 1 | 1 | ........ | ........ | ........ | ........ | ........ | ........ |
| 25 | Gold tranche position in IMF | 1,555 | 863 | 1,935 | 585 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 1,935 | 585 |
| 26 | U.S. liabilities to foreigners [1] | 40,929 | 58,796 | 97,665 | 122,775 | 60,515 | 71,664 | 13,299 | 13,459 | 6,049 | 16,164 | 9,025 | 9,299 | 5,603 | 5,740 | 2,975 | 3,447 |
| 27 | Nonliquid liabilities to other than foreign official agencies | 19,880 | 29,224 | 50,659 | 54,917 | 36,304 | 39,920 | 6,776 | 7,197 | 848 | 152 | 3,911 | 4,256 | 1,689 | 1,696 | 1,832 | 1,850 |
| 28 | U.S. Government [4] | 763 | 1,944 | 2,006 | 1,633 | 1,300 | 1,354 | 52 | 17 | 82 | 28 | 29 | 16 | 96 | 77 | ........ | ........ |
| 29 | Private, long-term | 16,418 | 26,318 | 44,755 | 49,833 | 31,746 | 34,904 | 6,407 | 6,943 | 666 | −54 | 3,020 | 3,770 | 1,249 | 1,285 | 1,832 | 1,850 |
| 30 | Direct investments in the United States | 6,910 | 8,797 | 13,270 | 13,704 | 9,554 | 10,077 | 3,117 | 3,339 | 220 | −174 | 348 | 316 | 121 | 146 | ........ | ........ |
| | U.S. securities: | | | | | | | | | | | | | | | | |
| 31 | Corporate and other bonds | 649 | 916 | 6,575 | 8,026 | 5,214 | 6,826 | 237 | 265 | 2 | 8 | 174 | 200 | 99 | 82 | 1,181 | 1,246 |
| 32 | Corporate stocks | 9,302 | 14,890 | 18,850 | 21,321 | 12,750 | 14,051 | 2,912 | 3,112 | 20 | 70 | 2,244 | 2,601 | 676 | 841 | 151 | 253 |
| 33 | Other liabilities, reported by U.S. banks | 7 | 393 | 1,009 | 759 | 6 176 | 6 256 | 6 3 | 6 4 | 6 385 | 6 3 | 6 415 | 6 168 | 6 333 | 6 133 | 6 490 | 6 351 |
| 34 | Other liabilities, reported by U.S. nonbanking concerns [1] | 1,480 | 1,619 | 4,940 | 5,178 | 4,048 | 4,165 | 196 | 268 | 30 | 39 | 480 | 626 | 230 | 264 | ........ | ........ |
| 35 | Private, short-term nonliquid, reported by U.S. nonbanking concerns | 619 | 966 | 3,909 | 3,811 | 2,703 | 2,641 | 287 | 237 | 148 | 178 | 369 | 471 | 345 | 384 | ........ | ........ |
| 36 | Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies | 21,029 | 29,574 | 47,006 | 67,858 | 24,211 | 34,744 | 6,523 | 6,263 | 5,200 | 16,012 | 5,114 | 5,043 | 4,114 | 4,044 | 1,148 | 1,597 |
| 37 | To private foreigners | 9,139 | 12,909 | 22,049 | 16,614 | 10,560 | 4,573 | 3,672 | 2,253 | n.a.s. | n.a.s. | 3,541 | 3,564 | n.a.s. | n.a.s. | 577 | 1,053 |
| 38 | To foreign commercial banks [6] | 4,818 | 7,419 | 17,109 | 10,060 | 9,076 | 3,375 | 3,078 | 1,889 | n.a.s. | n.a.s. | 1,218 | 1,295 | n.a.s. | n.a.s. | ........ | ........ |
| 39 | To international and regional organizations | 1,541 | 1,431 | 846 | 1,528 | 17 | 8 | ........ | ........ | n.a.s. | n.a.s. | 164 | 328 | n.a.s. | n.a.s. | 577 | 1,053 |
| 40 | To other foreigners | 2,780 | 4,059 | 4,094 | 4,141 | 1,467 | 1,190 | 494 | 364 | n.a.s. | n.a.s. | 2,177 | 2,071 | n.a.s. | n.a.s. | | |
| 41 | To foreign official agencies | 11,890 | 16,454 | 24,957 | 51,244 | 13,661 | 30,171 | 2,851 | 3,980 | n.a.s. | n.a.s. | 1,473 | 1,379 | n.a.s. | n.a.s. | 566 | 544 |
| 42 | Nonliquid | 2 | 450 | 3,704 | 3,036 | 645 | 705 | 2,250 | 2,610 | ........ | ........ | ........ | ........ | 135 | 135 | ........ | ........ |
| 43 | Report by U.S. Government [8] | 2 | 330 | 3,069 | 3,490 | 645 | 705 | 2,250 | 2,610 | ........ | ........ | ........ | ........ | 135 | 135 | ........ | ........ |
| 44 | Reported by U.S. banks | ........ | 120 | 635 | 155 | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) |
| 45 | Liquid | 11,888 | 16,206 | 20,423 | 47,005 | 13,016 | 29,466 | 980 | 1,349 | n.a.s. | n.a.s. | 1,473 | 1,379 | n.a.s. | n.a.s. | 566 | 544 |

r Revised. p Preliminary. *Less than $500,000 (±). ‡Includes U.S. gold stock.
N.a.s. Not shown separately.

1. Also includes paid-in capital subscription to international financial institutions (other than IMF) and outstanding amounts of miscellaneous claims which have been settled through international agreements to be payable to the U.S. Government over periods in excess of 1 year. Excludes World War I debts that are not being serviced.

2. Includes indebtedness which the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.

3. For the most part represents the estimated investment in shipping companies registered primarily in Panama and Liberia.

4. The long-term position data given here include estimates for real estate, insurance, estates, and trusts.

5. Liquid claims are not available separately and are included with nonliquid claims.

6. Beginning in 1970 country detail for Western Europe includes the European Economic Community, United Kingdom, and Switzerland only, and for Latin America and O.W.H. includes only Bahamas and Bermuda. Remaining countries are not separately identified due to insignificant amounts and are included in other foreign countries.

7. The regional breakdown for liability lines may not add to the world total since certain items cannot be shown separately and because of the assumptions made regarding lines 35 and 44 (see footnote 9).

8. U.S. Government liabilities are broken down into those to foreign official reserve agencies in line 43 and those to others in line 28, including foreign official agencies other than reserve agencies. U.S. Government notes held by the Canadian Government in connection with the 1961 Columbia River power rights arrangements are included in the entries for foreign official reserve agencies.

9. In the regional breakdown, nonliquid liabilities to foreign official agencies reported by U.S. banks are included with private long-term liabilities reported by U.S. banks, and, for summation purposes in the regional presentation, line 44 is assumed to be zero and any entries that would appear there are considered part of line 33.

10. As reported by U.S. banks; ultimate ownership is not identified.

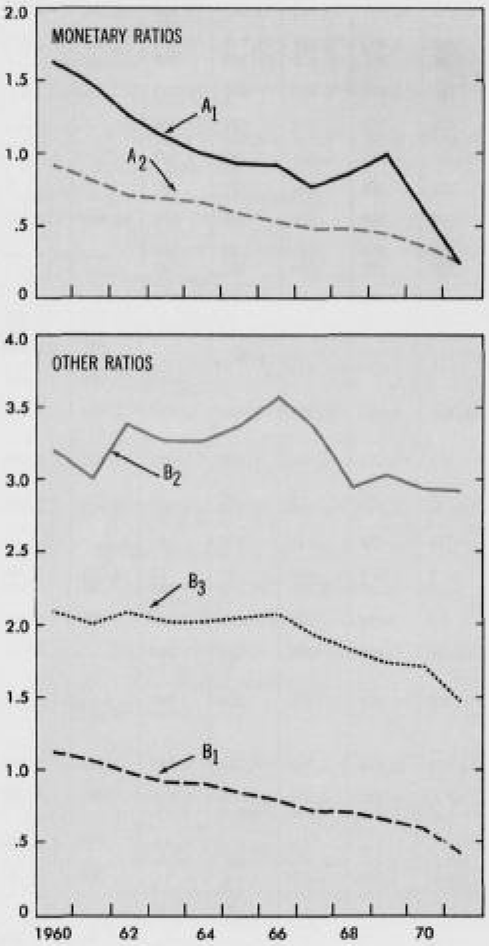
NOTE.—Details may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

only $1.6 billion, partly offsetting the decline in reserve assets. The increase in claims, particularly liquid claims, is probably substantially understated as a result of the large unrecorded outflows.

CHART 9

**Liquidity Ratios: Outstanding U.S. Assets Abroad to Liabilities to Foreigners by Degree of Liquidity**




$$A_1 \quad \frac{\text{Reserves}}{\text{Liabilities to foreign official agencies}}$$

$$A_2 \quad \frac{\text{Liquid assets}}{\text{Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies}}$$

$$B_1 \quad \frac{\text{Liquid and nonliquid short-term assets}}{\text{Liquid and nonliquid short-term liabilities to all foreigners and nonliquid liabilities to foreign official agencies}}$$

$$B_2 \quad \frac{\text{Long-term assets}}{\text{Long-term liabilities to other than foreign official agencies}}$$

$$B_3 \quad \frac{\text{Total U.S. assets abroad}}{\text{Total U.S. liabilities to foreigners}}$$

NOTE.—Refer to table 4 for data.

U.S. Department of Commerce, Bureau of Economic Analysis 72-10-9

Total U.S. liabilities rose an unprecedented $25.1 billion, $22.4 billion due to capital inflows and $2.7 billion to price and other adjustments. There was a $4.3 billion increase in nonliquid liabilities, which largely reflected an increase in foreign holdings of U.S. securities of $4.4 billion. Half of the increase was due to additional purchases and half to appreciation in the value of existing holdings. A net increase in foreign direct investment in the United States of $0.4 billion reflected the reinvestment of earnings, more than offsetting a small capital outflow. The latter was probably associated with exchange market developments.

Total liquid liabilities to foreigners increased $20.9 billion (table 2, line 36). Liabilities to foreign official agencies rose $26.9 billion; sales of dollars on the part of private holders, both in the United States and abroad, led to this very large increase. There was a large reduction of liquid liabilities to private foreigners, totaling $6 billion, for the second consecutive year. U.S. banks further reduced liabilities to their foreign branches and other foreign banks, as did U.S. agencies of foreign banks to their head offices abroad as U.S. interest rates continued to decline. Dollars were heavily borrowed abroad by European (especially German) firms subject to restrictive domestic credit policies and were converted into other currencies to finance their business operations. Dollars were borrowed also to acquire currencies which were expected to appreciate against the dollar. All these transactions resulted in dollars being channeled to foreign commercial banks in exchange for local currencies. The commercial banks subsequently turned in their dollars to their central banks, thus contributing to the large buildup in U.S. liquid liabilities to foreign official agencies.

In sum, nonliquid assets rose $10.2 billion more than nonliquid liabilities, but liquid liabilities rose $21.6 billion more than liquid assets. The deterioration in the liquidity structure of the U.S. international investment position—particularly in that part relating to official U.S. reserve assets and U.S. liquid liabilities to foreign official agencies—reached a point where it became necessary to suspend dollar convertibility into gold and other reserve assets on August 15, 1971.

### *Liquidity structure*

To facilitate an analysis of the changing liquidity structure of the U.S. international investment position, ratios of selected categories of assets and liabilities are shown in table 4 and in chart 9. Such an analysis is subject to limitations because the degree of liquidity of broad categories of assets and liabilities, being compared, is not exactly identical.

An examination of the ratios shows that mounting payments deficits in recent years have had the cumulative effect of eroding our liquidity structure. Ratio A1 is, roughly, the investment position counterpart of the official reserve transactions balance in the payments accounts although the two indicators do not focus on exactly the same question. The size of the balance is not affected by how it is financed, i.e., whether there is a change in reserves or a change in liabilities to foreign official agencies. The ratio, which compares U.S. official reserve assets to U.S. liabilities to foreign official agencies, is affected by the composition of the financing. Throughout the early sixties the ratio was above one but declining. It dropped to 0.77 in 1967, recovering for the next 2 years as the official balance returned to surplus, reflecting the tight monetary policy in the United States. However, in 1970 the ratio declined to 0.59, as U.S. short-term interest rates declined sharply. The ratio deteriorated at an accelerated pace in 1971, as growing expectations of a dollar devaluation against other leading currencies led to a large scale run on the dollar. Liquid dollar liabilities to foreign official agencies soared and the ratio fell to less than 0.30 by mid-1971. From mid-August through mid-December 1971, there was a controlled float in exchange rates, and several foreign countries implemented restrictions on capital movements to

**Table 4.—Liquidity Ratios: Outstanding U.S. Assets Abroad to Liabilities to Foreigners, by Degree of Liquidity**

| Refer to chart | Lines in table 3 | Ratios | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Monetary Combinations** | | | | | | | | | | | | |
| $A_1$ | 31 / 41 | Reserves / Liabilities to foreign official agencies | 1.63 | 1.48 | 1.29 | 1.11 | 1.00 | 0.93 | 0.93 | 0.77 | 0.85 | 1.00 | 0.69 | 0.24 |
| $A_2$ | 17 / 30 | Liquid assets / Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies | .80 | .82 | .71 | .70 | .66 | .58 | .64 | .47 | .48 | .49 | [illegible] | .24 |
| | | **Other Combinations** | | | | | | | | | | | | |
| $B_1$ | 14+17 / 35+36 | Liquid and nonliquid short-term assets / Liquid and nonliquid short-term liabilities and nonliquid liabilities to foreign official agencies | 1.12 | 1.06 | .98 | .92 | .91 | .84 | .79 | .71 | .70 | .64 | .58 | .48 |
| $B_2$ | 4+6 / 28+29 | Long-term assets / Long-term liabilities to other than foreign official reserve agencies | 3.29 | 3.00 | 3.30 | 3.25 | 3.27 | 3.38 | 3.66 | 3.37 | 3.14 | 3.03 | 2.93 | 3.08 |
| $B_3$ | 2 / 26 | Total U.S. assets abroad / Total U.S. liabilities to foreigners | 2.04 | 2.00 | 2.06 | 2.02 | [illegible] | 2.05 | 2.03 | 1.94 | 1.81 | 1.74 | 1.71 | 1.47 |

discourage inflows of funds. During this period the deficit in the official reserve transactions balance roughly measured the extent of intervention by foreign countries to limit appreciation of their currencies. As the dollar has been officially inconvertible into gold and other reserve assets since August 15, practically all this intervention was reflected in further dollar accumulations by these countries. Ratio A1 reflected this, and dropped to 0.24 at yearend (where it remained to June 1972).

The worsening of the situation through 1971 can also be seen in ratio A2. This ratio, which is, essentially, the counterpart in the investment position of the net liquidity balance in the payments accounts, expands the coverage of U.S. assets to include private liquid claims in addition to reserves. It compares all these liquid assets to liabilities to foreign official agencies and liquid liabilities to private foreigners. This ratio also declined in 1970 and 1971 but to a lesser degree. The decline would have been smaller if unrecorded acquisitions of private U.S. claims on foreigners could be taken into account.

Other combinations of assets and liabilities in table 4 are useful in assessing long-term developments in our international investment structure. Ratio B1, for example, compares reported U.S. short-term assets (nonliquid and liquid short-term claims of U.S. private residents and U.S. official reserves) to short-term liabilities (liquid and nonliquid short-term liabilities to private foreigners and all liabilities to foreign official agencies). A lesser decline in this ratio than in the monetary ratios is due to the recent growth in nonliquid claims on foreigners. In the last 2 years, when foreign interest rates were higher than U.S. rates and, in the fourth quarter of 1971 when export credits were exempted from the Voluntary Credit Restraint Program, U.S. increases in these assets exceeded changes in our nonliquid liabilities.

Ratios B2 and B3 are concerned with long-term assets and liabilities, and total assets and liabilities, respectively. It is interesting to note that ratio B2, long-term assets to long-term liabilities, has been relatively stable since 1968, in contrast to the worsening of the short-term ratio B1. Ratio B3, covering total assets and total liabilities is the most comprehensive of the ratios. Given the stability in the long-term asset and liability ratio the decline in B3 is associated with the deterioration in our recorded short-term international investment position.

*(Continued from page 16)*

cases, accounted for more than two-fifths of the differential between State and average U.S. personal income change. All but two of these States (Oklahoma and New Mexico) also registered gains in manufacturing payrolls that were well above the national average. Florida is the only State in this group not dominated by changes in farming and manufacturing, but here most recreation (service-type) related activities advanced rapidly. In particular, service industry payrolls showed large gains and construction was up markedly.

There were 15 States with weak income performance. Of these, there were eight States where income was little changed (gains of three-fourths of a percent or less): West Virginia, Wyoming, South Carolina, Utah, Maine, Texas, Colorado, and Oregon. In seven other States, income dropped by one-half percent to 2 percent: Louisiana, Alabama, Maryland, North Dakota, Pennsylvania, Alaska, and Mississippi. Farm income was off sharply in nine of these 15 States, and manufacturing payrolls were off or up only slightly in 13. In three States with weak income performance, losses associated with flooding had a measurable impact.